Report

of the

Examination of

Sentry Insurance a Mutual Company

Stevens Point, Wisconsin

As of December 31, 2003

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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June 6, 2005

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Commissioners:

In accordance with the instructions of the Wisconsin Commissioner of Insurance, a compliance examination has been made of the affairs and financial condition of:

SENTRY INSURANCE A MUTUAL COMPANY
Stevens Point, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Sentry Insurance a Mutual Company (SIAMCO or the company) was conducted in 2000 as of December 31, 1999. The current examination covered the intervening period ending December 31, 2003, and included a review of such 2004 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Commentary on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company’s loss and loss adjustment expense reserves. The actuary’s results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary’s conclusion.

II. HISTORY AND PLAN OF OPERATION

Hardware Dealers Mutual Fire Insurance Company of Wisconsin was incorporated on June 10, 1903, and commenced business on April 8, 1904. In response to state licensing restrictions prohibiting a single company from writing both property and casualty risks, the Wisconsin Hardware Limited Mutual Liability Insurance Company was incorporated under the laws of the state of Wisconsin on December 19, 1913, and commenced business on August 15, 1914. The casualty company's name was changed to Wisconsin Hardware Casualty Company at a meeting of the policyholders on February 4, 1920.

In 1963, the companies adopted the trade name of "Sentry Insurance," together with the minuteman corporate logo. In September 1966, the companies acquired majority financial control of Dairyland Insurance Company (Dairyland) and its downstream subsidiaries.

Effective September 30, 1970, Wisconsin Hardware Limited Mutual Liability Insurance Company was merged into Wisconsin Hardware Casualty Company. The company continued to be known as Hardware Mutual Casualty Company until July 1, 1971, when the name was changed to Sentry Insurance a Mutual Company.

Effective June 6, 1974, SIAMCO entered into an agreement with Middlesex Mutual Insurance Company, a Massachusetts company, whereby Middlesex would demutualize and be acquired, along with its subsidiary Patriot General Insurance Company, by The Sentry Corporation, then a wholly-owned subsidiary of SIAMCO. In June 1974, special legislation passed by the Massachusetts Legislature permitted the conversion, articles of amendment were filed with the Secretary of the Commonwealth of Massachusetts in order to execute the conversion and rename the company Middlesex Insurance Company (Middlesex), and the Massachusetts Insurance Division approved the transactions. The Sentry Corporation acquired all 200,000 shares issued by the company.

In 1986, ownership of Middlesex was transferred from The Sentry Corporation to SIAMCO, its current parent, as part of an effort to separate insurance operations from noninsurance operations. On April 28, 1994, Middlesex, together with its subsidiary, Patriot General, redomiciled from Massachusetts to Wisconsin.

On September 30, 1999, SIAMCO acquired 100% of the outstanding common stock of the John Deere Insurance Group, Inc., and subsequently changed the name of the holding company to Sentry Insurance Holding Company. The subsidiaries of the holding company were Sentry Select Insurance Company (formerly John Deere Insurance Company), Sentry Casualty Company (formerly John Deere Casualty Company), Rock River Insurance Company, and Sentry Insurance Agency, Inc. (formerly John Deere Insurance Agency, Inc.). The Parker Stevens Agency of Texas, Inc. (formerly John Deere General Agency, Inc.), is a subsidiary of Sentry Select Insurance Company. On February 1, 2002, Sentry Insurance Holding Company sold Rock River Insurance Company to Arch Capital Group, Ltd. Effective January 1, 2003, Sentry Insurance Agency, Inc., was merged into Parker Stevens Agency, LLC, and effective June 1, 2004, Parker Stevens Agency of Texas, Inc., was also merged into Parker Stevens Agency, LLC. Additional information about these entities can be found in the “Affiliated Companies” section of the report.

SIAMCO is the primary employer for the Sentry Insurance Group, with approximately 3,700 employees nationwide at the time of this examination. The only other employer in the group is Sentry Services, Inc., with approximately 100 employees. All operations of the group’s insurance and noninsurance entities are conducted with staff provided by these companies in accordance with business practices and internal controls established by SIAMCO. Virtually all expenses are initially paid by SIAMCO. Expenses other than taxes are allocated on the basis of specific identification, utilization estimates developed from such criteria as premium or claim volume, and time studies, in accordance with a written general expense allocation agreement. Tax allocations are established in accordance with a written policy approved by the SIAMCO board of directors on February 2, 1983. Intercompany balances with affiliates are created in the ordinary course of business with settlements generally made on a monthly basis. Written agreements with affiliates are further described in the section of this report titled, “Affiliated Companies."

SIAMCO’s operations are coordinated from its home office in Stevens Point, Wisconsin. Support services are provided through its own network of claim administration centers and marketing offices. In 2003, the company wrote direct premium in the following states:

Wisconsin	$140,479,133	23.9%
California	83,972,480	14.3
Illinois	46,795,451	7.9
Texas	32,554,558	5.5
Massachusetts	26,480,917	4.5
New Jersey	21,241,631	3.6
Minnesota	19,859,129	3.4
Indiana	19,401,402	3.3
Florida	19,326,878	3.3
Missouri	17,697,905	3.0
All others	161,174,429	27.3
Total	$588,983,913	100.0%

The company is licensed in the 50 United States, the District of Columbia, Puerto Rico, and Canada. Business is primarily written through a sales force consisting of approximately 900 direct writers and 100 national and regional insurance brokerage firms. The company also acquires business through participation in residual markets. The company uses standard contract forms and commission schedules for its sales representatives. Direct writers are employees of SIAMCO. They are compensated through new and renewal commissions and also receive subsidies for a time at the beginning of their employment, a comprehensive benefit package, and are also eligible for special bonuses and incentives.

In the state of Wisconsin, the company is licensed to transact the following lines of business as defined by s. Ins 6.75(2), Wis. Adm. Code:

(a) Fire, Inland Marine, and Other Property
(b) Ocean Marine
(c) Disability
(d) Liability and Incidental Medical Expense
(e) Automobile and Aircraft
(f) Fidelity
(g) Surety
(j) Credit
(k) Worker's Compensation
(m) Credit Unemployment
(n) Miscellaneous

The following table is a summary of the net insurance premiums written by the company in 2003. SIAMCO is the lead company for the Sentry pool, so a large portion of assumed and ceded business is with affiliates for the pooled business. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	**Direct Premium**	**Reinsurance Assumed**	**Reinsurance Ceded**	**Net Premium**
Fire	$ 17,278,306	$ 23,282,487	$ 16,933,674	$ 23,627,119
Allied lines	13,695,103	19,620,232	13,584,229	19,731,106
Homeowner's multiple peril	38,122,107	1,591,088	16,968,055	22,745,140
Commercial multiple peril	24,543,424	(3,388,416)	10,998,104	10,156,904
Ocean marine		82,279	32,912	49,367
Inland marine	4,999,667	58,271,687	25,393,044	37,878,310
Earthquake	362,373	650,752	416,743	596,382
Group accident and health	3,906,504	11,367,425	6,127,689	9,146,240
Other accident and health		48,866	19,546	29,320
Worker's compensation	271,546,957	125,909,471	173,336,744	224,119,684
Other liability - occurrence	38,409,197	55,069,214	38,284,603	55,193,808
Other liability - claims made	1,361	3,545,219	1,418,632	2,127,948
Products liability - occurrence	18,101,567	15,033,061	17,064,136	16,070,492
Private passenger auto liability	56,437,175	404,612,901	184,578,349	276,471,727
Commercial auto liability	47,346,886	195,510,110	105,001,232	137,855,764
Auto physical damage	53,553,942	229,596,330	113,286,336	169,863,936
Aircraft (all perils)		(31,761)	(12,705)	(19,056)
Fidelity	468,025	4,168,606	1,854,652	2,781,979
Surety	97,601	862,179	384,078	575,702
Burglary and theft	113,633	1,548,014	665,335	996,312
Boiler and machinery	87		87	
International		9,017	3,737	5,280
Reinsurance - non-proportional assumed property		(209,682)	(84,518)	(125,164)
Write-ins for other lines of business: Extended warranty		9,836,265	3,934,506	5,901,759
Total All Lines	$588,983,913	$1,156,985,344	$730,189,200	$1,015,780,059

Private passenger auto liability represents 27% of the total net premiums written, auto physical damage represents 17%, and worker's compensation represents 22%.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of ten members. One-third of the directors are elected annually to serve a three-year term, or a lesser term as may be necessary to maintain the number of directors elected at each ensuing policyholder annual meeting at one-third of the membership. Since 2000, there have been several retirements, causing the expirations to be uneven; the company will adjust director terms at the next annual meeting to achieve compliance with its articles. Officers are elected annually by the board. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive $2,000 per meeting for attendance and $9,000 per quarter as a retainer for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Dale R. Schuh Stevens Point, Wisconsin	Chairman of the Board, Chief Executive, Officer and President, Sentry Insurance a Mutual Company	2005
Bryan B. Starr Birmingham, Alabama	Chairman, Healthcare Realty Services, Inc.	2006
William H. Lawson, III Sarasota, Florida	Retired; former Chairman and Chief Executive Officer Franklin Electric Company, Inc.	2006
W. Thomas Gould Longboat Key, Florida	Chairman and Chief Executive Officer, Gould Ltd., L.L.C.	2005
Robert H. Jenkins River Hills, Wisconsin	Retired; former Executive Vice President United Technologies Corporation	2006
James B. Wigdale Milwaukee, Wisconsin	Chairman, Marshall & Ilsley Corporation	2006
Peter J. Pestillo Gross Pointe Farms, Michigan	Chairman and Chief Executive Officer, Visteon Corporation	2005
Leo M. Henikoff Chicago, Illinois	President Emeritus, Rush University, Rush Medical Center	2006
James D. Pearson Sugar Grove, Illinois	Retired; former President, Aurora Metal Division, L.L.C.	2007
Vincent Amoroso Sarasota, Florida	President, RS Actuaries, Inc.	2005

Officers of the Company

The officers serving at the time of this examination are as follows: The officers are employed and compensated by Sentry Insurance a Mutual Company. The officers of SIAMCO may also be officers of other companies in the Sentry Group, subsequently the salaries listed below are the portion of the officer's total salary that is allocated to SIAMCO.

Name	Office	2004 Compensation
Dale Robert Schuh	Chairman of the Board, Chief Executive Officer & President	$859,123
William James Lohr	Vice President & Treasurer	150,551
William Michael O'Reilly	Vice President, General Counsel & Secretary	140,813
Janet Leitner Fagan	Vice President & Chief Actuary	198,990
Richard Thomas LaBelle	Senior Vice President	93,311
James Donald Stitzlein	Senior Vice President	150,230
James Craig Clawson	Senior Vice President	189,989
Donald Dwight Olson	Vice President	87,571
Thomas James Donnelly	Vice President	176,166
Doyle Frederick Browning *	Vice President	0
James John Weishan	Vice President	68,380
Robert Edmund Reko	Vice President	89,235
Daniel Lawrence Revai	Vice President	126,675
Patrick Joseph Walsh	Vice President	99,327
Wallace Dee Taylor	Vice President	55,142
Thomas John Whittington	Vice President	72,723
Mark Robert Budde *	Vice President	0

* Mr Browning works predominantly on Sentry Select and Sentry Life and Mr. Budde works predominantly on Dairyland and Patriot General. SIAMCO allocates salaries based on a time spent formula, therefore no salary is allocated to SIAMCO for these two officers.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Compensation and Personnel Committee
James B. Wigdale, Chair
W. Thomas Gould
James D. Pearson
Peter J. Pestillo

Audit Committee
William H. Lawson, III, Chair
Vincent Amoroso
Leo M. Henikoff
Robert H. Jenkins

Governance Committee
Bryan B. Starr, Chair
Robert H. Jenkins
William H. Lawson, III
Peter J. Pestillo
James B. Wigdale

Committee chairpersons receive $1,750 per meeting and committee members receive $1,000 per meeting as compensation. The committees each meet at least twice a year.

Compensation and Personnel Committee

The function of this committee is to research and issue recommendations to the board concerning director and senior executive compensation. Oversight is also extended to matters affecting general and special retirement programs, succession plans, organizational structure, and personnel matters relating to high-level executives.

Audit Committee

The function of this committee is to maintain direct lines of communication between the board of directors, the company's independent public accounting firm, and the internal audit department. The committee reviews and discusses the audit report, management report, and other consulting reports of the public accountants. In addition, its members review the internal audit department's plans and audit results.

Governance Committee

The function of this committee is to recruit directors as a result of death, retirement, or resignation. The committee also formally recommends the nomination of directors to the board as a whole. The committee reviews the performance of individual directors and that of the board. The committee also reviews the charters of all board committees.

IV. AFFILIATED COMPANIES

Sentry Insurance a Mutual Company is the parent of its holding company system. As of December 31, 2004, SIAMCO had 22 subsidiaries and affiliates, including 11 insurers and 11 noninsurance entities. SIAMCO is also affiliated with Dairyland County Mutual Insurance Company of Texas through common management. A chart of all of the entities in the holding company system is presented later in this section of the examination report.

Insurance Subsidiaries and Affiliates

Dairyland County Mutual Insurance Company of Texas

Dairyland County Mutual Insurance Company of Texas (DCM-TX) is a Texas county mutual insurer organized on May 27, 1946. It is licensed only in the state of Texas, and specializes exclusively in nonstandard auto and motorcycle insurance. As a mutual company, DCM-TX is owned by its policyholders. DCM-TX is affiliated with SIAMCO through common management and control, as well as certain management service agreements. The company cedes 100% of its direct written premium to Dairyland Insurance Company. As of December 31, 2003, the company reported assets of $14,926,327, liabilities of $4,201,311, policyholders' surplus of $10,725,016, and net income of $158,689.

Dairyland Insurance Company

Dairyland Insurance Company is a Wisconsin-domiciled stock property and casualty insurer licensed in 44 states. The company was formed on August 1, 1965, to become successor to the Dairyland Mutual Insurance Company organized on January 8, 1953. During 1966, SIAMCO acquired all outstanding common shares, and has since held 100% ownership, though control has, at times, been indirect. At present, SIAMCO holds 100% of all outstanding common stock directly.

On its direct business, the company specializes in nonstandard auto, with some motorcycle business as well. The company also assumes 100% of the business of Dairyland County Mutual Insurance Company of Texas, a Texas county mutual. Dairyland has a 20% participation in the affiliated pooling agreement whereby all property and casualty business written by the Sentry Insurance Group is combined and reapportioned. The 2003 annual statement reported assets of $973,840,753, liabilities of $676,989,323, policyholders' surplus of $296,851,430, and net income of $25,494,952. Dairyland was examined concurrently with SIAMCO as of December 31, 2003, and the results of that examination are expressed in a separate report.

Middlesex Insurance Company

Middlesex Insurance Company is a Wisconsin-domiciled stock property and casualty insurer licensed in 40 states and the District of Columbia. This company was chartered by the Massachusetts Legislature as the Middlesex Mutual Fire Insurance Company on March 29, 1826. Conversion from a mutual to a capital stock company was effected by charter amendment on June 11, 1974, in connection with SIAMCO's acquisition of control, at which time it adopted its present name. SIAMCO has since held 100% ownership, and while presently its interest is direct, control has at times been indirect. On April 28, 1994, the company redomesticated from Massachusetts to Wisconsin.

Of its direct business, the company writes 34% in auto lines and 54% in worker's compensation. The company also assumes 100% of the business of Patriot General Insurance Company, a wholly owned subsidiary. Middlesex has a 10% participation in the affiliated pooling agreement. The 2003 annual statement reported assets of $494,973,228, liabilities of $345,065,105, policyholders' surplus of $149,908,124, and net income of $11,817,202. Middlesex was examined concurrently with SIAMCO as of December 31, 2003, and the results of that examination are expressed in a separate report.

Parker Assurance Limited

Parker Assurance Limited (PAL) is a Bermuda insurance company that is a wholly owned subsidiary of SIAMCO. PAL provides rent-a-captive services. As of December 31, 2003, PAL's audited financial statements, according to Bermuda standards, reported assets of $1,282,557, liabilities of $346,258, and stockholder's equity of $936,299. Operations for 2003 produced a net loss of $47,632.

Parker Assurance Limited Separate Account

Parker Assurance Limited Separate Account (PALSA) represents SIAMCO's segregated cell within PAL. PALSA reinsured SIAMCO for certain auto liability policies from February 1, 2002, through January 31, 2003. As of December 31, 2003, the audited financial statements, presented according to Bermuda standards, of PALSA reported assets of $443,244, liabilities of $116,931, and stockholder's equity of $326,313. Operations for 2003 produced net income of $114,084.

Parker Centennial Assurance Company (f/k/a Acceleration Life Insurance Company)

SIAMCO acquired Acceleration Life Insurance Company from Lyndon Life Insurance Company, a subsidiary of Protective Life Corporation, by means of a stock purchase agreement dated December 20, 2003, which closed on March 19, 2004. The company was redomiciled from Ohio to Wisconsin and the name was changed to Parker Centennial Assurance Company (Parker Centennial) effective August 11, 2004. SIAMCO plans to use Parker Centennial exclusively for structured settlements. As of December 31, 2003, the audited financial statements of Acceleration Life reported assets of $12,031,454, liabilities of $117,579, and capital and surplus of $11,913,875. Operations for 2003 produced net income of $222,372. Parker Centennial was examined concurrently with SIAMCO as of December 31, 2003, and the results of that examination are expressed in a separate report.

Patriot General Insurance Company

Patriot General Insurance Company is a stock property and casualty insurer incorporated under its present name pursuant to the laws of the Commonwealth of Massachusetts on January 2, 1968. SIAMCO acquired 100% indirect ownership of Patriot General in June 1974 in connection with the acquisition of Middlesex. On April 28, 1994, Patriot General redomiciled to the state of Wisconsin.

Patriot General is licensed in 21 states, with approximately 71% of all of its premiums written in Florida and Georgia. The company writes predominantly auto and worker's compensation lines of business. The company cedes 100% of its business to Middlesex Insurance Company, its immediate parent. The 2003 annual statement reported assets of

$19,241,651, liabilities of $1,206,239, policyholders' surplus of $18,035,424, and net income of $627,101. Patriot General was examined concurrently with SIAMCO as of December 31, 2003, and the results of that examination are expressed in a separate report.

Sentry Insurance Holding Company

On September 30, 1999, SIAMCO acquired 100% of the outstanding common stock of the John Deere Insurance Group, Inc., and subsequently changed its name to Sentry Insurance Holding Company. The subsidiaries of the holding company were Sentry Select Insurance Company (formerly John Deere Insurance Company), Sentry Casualty Company (formerly John Deere Casualty Company), Rock River Insurance Company, and Sentry Insurance Agency, Inc. (formerly John Deere Insurance Agency, Inc.). The Parker Stevens Agency of Texas, Inc. (formerly John Deere General Agency, Inc.), is a subsidiary of Sentry Select Insurance Company. The three insurance companies redomiciled to Wisconsin effective January 1, 2001.

The acquisition of the John Deere Insurance Group was viewed as an opportunity for growth and enabled the Sentry Group to offer a full line of insurance products to dealers of farm and lawn equipment, construction equipment and recreational vehicles, and to trucking operations.

On February 1, 2002, Sentry Insurance Holding Company sold Rock River Insurance Company to Arch Capital Group, Ltd. Effective January 1, 2003, Sentry Insurance Agency, Inc., was merged into Parker Stevens Agency, LLC, and effective June 1, 2004, Parker Stevens Agency of Texas, Inc., was also merged into Parker Stevens Agency, LLC.

As of December 31, 2003, Sentry Insurance Holding Company reported $164,302,924 in assets, $1,558,712 in liabilities, and $162,744,212 in equity. The reported net income of $2,803,722 was primarily from the increase in equity in its companies.

Sentry Select Insurance Company

Sentry Select Insurance Company (Sentry Select) is a property and casualty insurer incorporated on August 1, 1929, as the Fulton Fire Insurance Company under the laws of New York. On May 8, 1969, Deere & Company acquired the company from Hanover Insurance Company of New York and changed its name to John Deere Insurance Company. The company redomiciled to Illinois on December 31, 1982. SIAMCO acquired 100% indirect ownership in connection with the acquisition of John Deere Insurance Group, Inc., on September 30, 1999, and the name was changed to Sentry Select Insurance Company. On January 1, 2001, the company redomiciled to Wisconsin.

Sentry Select is licensed in all 50 states and the District of Columbia. Of its direct business, the company writes 51% in auto, 10% in inland marine and 14% in worker's compensation lines of business. Sentry Select also assumes 100% of the business from Sentry Casualty Company. Sentry Select has a 10% participation in the affiliated pooling agreement. The 2003 annual statement reported assets of $532,976,838, liabilities of $385,419,139, policyholders' surplus of $147,557,700, and net income of $11,599,064. Sentry Select was examined concurrently with SIAMCO as of December 31, 2003, and the results of that examination are expressed in a separate report.

Sentry Casualty Company

Sentry Casualty Company is a property and casualty insurer incorporated on July 23, 1973, in the state of Nevada, as Tahoe Insurance Company. It was organized by Deere & Company and ownership was shared with Sierra General Life Insurance Company. Upon the liquidation of Sierra, the John Deere Insurance Group assumed the shares. After the company redomesticated to Illinois, the name was changed to John Deere Casualty Company. SIAMCO acquired 100% indirect ownership in connection with the acquisition of John Deere Insurance Group, Inc., on September 30, 1999, and changed the company's name to Sentry Casualty Company. On January 1, 2001, the company redomiciled to Wisconsin.

Sentry Casualty is licensed in 42 states. The company cedes 100% of the business to Sentry Select Insurance Company. The 2003 annual statement reported assets of $15,752,415, liabilities of $170,385, policyholders' surplus of $15,582,030, and net income of $624,312. Sentry Casualty was last examined as of December 31, 2002, and was examined concurrently with SIAMCO as of December 31, 2003. The results of that examination are expressed in a separate report.

Sentry Life Insurance Company

Sentry Life Insurance Company is a Wisconsin-domiciled life insurer organized on October 23, 1958. Premiums are derived from the sale of group accident and health insurance products, individual and group life insurance, and annuities. The company cedes its group accident and health business to SIAMCO. Sentry Life is licensed in the District of Columbia, and all states except New York. The company is a wholly owned subsidiary of SIAMCO. The 2003 annual statement reported assets of $2,311,291,370, liabilities of $2,117,740,890, policyholders' surplus of $193,550,480, and net income of $17,379,872. Sentry Life was examined concurrently with SIAMCO as of December 31, 2003, and the results of that examination are expressed in a separate report.

Sentry Life Insurance Company of New York

Sentry Life Insurance Company of New York (SLONY) is a New York-domiciled life insurer incorporated on May 23, 1966. It is licensed in New York, Minnesota, and North Dakota. All of the company's direct business is written in New York, which is the territorial focus of its sales efforts. It writes predominantly group accident and health products, though individual and group life insurance and annuity business are written as well. SLONY retains nearly all of its direct writings. The insurer is a wholly owned subsidiary of Sentry Life Insurance Company. The 2003 annual statement reported assets of $42,787,072, liabilities of $36,254,455, policyholders' surplus of $6,532,617, and net income of $519,194.

Sentry Lloyds of Texas

Sentry Lloyds of Texas (SLOT) is a Texas-domiciled Lloyds plan property and casualty insurer established on October 18, 1983. SLOT was organized as a trust of which SIAMCO is the sole grantor and beneficiary. SLOT is licensed only in Texas and specializes in commercial package policies. The company cedes 100% of its business to SIAMCO. As of December 31, 2003, SLOT reported $4,491,744 in assets, $234,033 in liabilities, $4,257,711 in policyholders’ surplus, and $175,719 in net income.

Noninsurance Subsidiaries and Affiliates

Parker Stevens Agency, L.L.C.

Parker Stevens Agency, L.L.C., organized on October 29, 2001, is a Wisconsin-domiciled insurance agency providing facilities for company sales representatives to accommodate policyholders with coverage not written by insurers in the Sentry Insurance Group. The corporation arranges placement of such business using outside brokers. Effective January 1, 2003, Parker Stevens Agency, Inc., and Sentry Insurance Agency, Inc., were merged into Parker Stevens Agency, L.L.C. Effective June 1, 2004, Parker Stevens Agency of Texas, Inc., was also merged into Parker Stevens Agency, L.L.C. As of December 31, 2003, the corporation reported $1,671,128 in assets, $589,834 in liabilities, $1,081,294 in equity, and net income of $969,371.

Parker Stevens Agency of Massachusetts, Inc.

Parker Stevens Agency of Massachusetts, Inc., is a Wisconsin-domiciled insurance agency incorporated on September 28, 1982. Its purpose is to provide services identical to those of Parker Stevens Agency, L.L.C., to policyholders of SIAMCO and its affiliates resident in Massachusetts. As of December 31, 2003, the agency reported assets of $47,403, liabilities of $4,165, stockholder's equity of $43,238, and a net loss of $4,303.

Sentry Aviation Services, Inc.

Sentry Aviation Services, Inc., is a Wisconsin-domiciled corporation organized on August 15, 1979. It manages the Stevens Point Airport. As of December 31, 2003, Sentry Aviation reported assets of $206,266, liabilities of $21,140, and stockholder's equity of $185,126. A subsidy of $198,538 from SIAMCO, its sole stockholder, brought 2003 reported net income to $0.

Sentry Aviation Services, L.L.C.

Sentry Aviation Services, L.L.C. (SAS), is a Wisconsin-domiciled company that is a wholly owned subsidiary of SIAMCO. SAS owns the corporate aircraft of SIAMCO, and the value of SAS is properly not included in the admitted assets of SIAMCO. As of December 31, 2003, the unaudited financial statements of SAS reported assets of $47,194,803, liabilities of $0, and member’s equity of $47,194,803. Operations for 2003 produced net income of $2,236,683.

Sentry Equity Services, Inc.

Sentry Equity Services, Inc., organized as a Delaware corporation on May 9, 1969, is a registered broker-dealer under the Securities Exchange Act of 1934. The corporation's securities operations are limited to the sale and redemption of redeemable securities issued by registered investment companies. The company acts as the distributor of Sentry Life Insurance Company's Variable Annuity and Variable Universal Life products. As of December 31, 2003, the corporation reported $89,909 in assets, $19,347 in liabilities, $70,562 in stockholder's equity, and $5,998 in net income.

Pursuant to an agreement with the corporation dated August 1, 1984, Sentry Life Insurance Company guarantees maintenance of minimum capitalization necessary to meet the requirements of the Securities Exchange Act of 1934. This minimum requirement was $5,000 in the most recent fiscal year.

Sentry Insurance Foundation, Inc.

Sentry Insurance Foundation, Inc., is a nonstock benevolent corporation organized on January 3, 1964, under ch. 181, Wis. Stat. It administers funds provided by the Sentry Insurance Group for educational purposes and for donations to charitable organizations. A significant portion of disbursements relates to a program whereby the Sentry Insurance Group matches the charitable donations of employees under qualified circumstances. As of December 31, 2003, the foundation reported a total fund balance of $498,128 and no liabilities. Contributions totaling $1,027,387 were administered in 2003, with reported overhead expense of $1,997.

Parker Services, L.L.C

Parker Services, L.L.C. (Parker Services), is a Wisconsin-domiciled company that provides loss control and industrial hygiene services. Parker Services is also a third-party administrator for self-insured worker’s compensation customers. In 2003 Parker Services had 34 third-party administrators and gross receipts of $1,879,761. As of December 31, 2003, the audited financial statements of Parkers Services, L.L.C., reported assets of $1,374,758, liabilities of $1,176,052, and member’s equity of $198,706. Operations for 2003 produced net income of $115,721.

Sentry Investment Management, Inc.

Sentry Investment Management, Inc., a Delaware corporation organized on June 13, 1969, manages the investment portfolios of SIAMCO and its affiliates, subject to the direction of their respective boards of directors. As of December 31, 2003, the corporation reported $354,027 in assets, $218,537 in liabilities, $135,490 in stockholder's equity, and $5,538 in net income. The company is a wholly owned subsidiary of SIAMCO.

Sentry Services, Inc.

Sentry Services, Inc., is a Wisconsin-domiciled corporation organized on November 23, 1976. It provides building and other general services for facilities owned by SIAMCO, including a restaurant, an auto service center, and SentryWorld's golf course, food service, pro shop, and tennis and racquetball courts. All of these operations are located in Stevens Point, Wisconsin. Most of the services are available to the general public as well as Sentry Insurance Group employees. As of December 31, 2003, the corporation reported assets of $350,912, liabilities of $150,912 and stockholder's equity of $200,000. A subsidy of $1,038,462 from SIAMCO, its sole stockholder, brought 2003 reported net income to $0.

WAULECO, Inc.

WAULECO, Inc., was incorporated in Wisconsin on April 4, 1899, as Vetter Manufacturing Company. The company once specialized in energy efficient wood and metal clad windows for residential and light commercial use, with plant locations in Stevens Point, Wisconsin, and Rockford, Illinois. It later acquired an industrial property in Wausau, Wisconsin, once used in the production of windows by Harris-Crestline Corporation, formerly a direct wholly owned subsidiary of the manufacturer.

SIAMCO purchased the Vetter Manufacturing Company on August 17, 1981, changed the name to SNE Corporation, and continued its business operations. On April 18, 1987, the name and operating assets of SNE Corporation were sold to an investor group not affiliated with the Sentry Insurance Group. After this sale, the company was renamed WAULECO, Inc.

Since the sale of its operating assets, WAULECO, Inc., has done nothing operationally except to clean up contaminated groundwater at the former Harris-Crestline industrial site in Wausau, Wisconsin. The site no longer has any manufacturing buildings, as they were razed and the land blacktopped. The only physical assets are pumping equipment that is used to extract and treat contaminated groundwater. The groundwater was contaminated from the use of a wood sealant that contained a hazardous material called pentachlorophenol. Most of the contamination occurred prior to the Sentry Insurance Group's acquisition of the property. Remediation of the site is pursuant to an administrative order issued by Wisconsin's Department of Natural Resources (DNR), and there is a close cooperation with the DNR. There has been no federal involvement.

As of December 31, 2003, the company reported assets of $591,218, liabilities of $18,541,533, and a stockholder's deficit of $17,950,315. Liabilities include environmental expense reserves of $9,500,000, and notes payable to SIAMCO, together with accumulated interest, amounting to $8,940,028. WAULECO's deficient equity is reflected as "Provision for Contingent Losses of Subsidiaries," a write-in liability on SIAMCO's balance sheet. A recent Wisconsin Supreme Court decision, City of Edgerton, et. al. v. General Casualty Company of Wisconsin, et. al., while not directly involving WAULECO, effectively eliminated WAULECO's ability to recover from its former insurers.

It is SIAMCO's position that it may not be obligated to fund WAULECO's obligations should the adjusted cash position of WAULECO be depleted. WAULECO's cash position is adjustable on the basis of a $10,000,000 dividend it issued to a SIAMCO affiliate in 1987.

Affiliated Agreements

SIAMCO is the primary employer for the Sentry Insurance Group with approximately 3,700 employees nationwide at the time of this examination. The only other employer in the group is Sentry Services, Inc., with approximately 100 employees. All operations of the group's insurance and noninsurance entities are conducted with staff provided by these companies in accordance with business practices and internal controls established by SIAMCO. In addition to common staffing and management control, SIAMCO's relationship to its affiliates is affected by various written agreements. Reinsurance agreements are described in the "Reinsurance" section of the report. A brief summary of the other agreements follows, with the arrangement in chronological order.

Joint Investment Agreement

Effective January 1, 1980, the company entered into a joint investment agreement with various affiliates to establish the Sentry Liquid Asset Partnership (SLAP), a joint venture organized pursuant to the Wisconsin Uniform Partnership Act. This agreement has been amended and restated to add or delete companies as needed. The fifth amended and restated agreement was entered into as of September 1, 2004, to delete SLONY. SIAMCO is designated as the managing partner, though the agreement permits a change by a majority decision of the participants. A participant may withdraw from the joint venture upon the delivery of written notice to the managing partner. The joint venture shall dissolve at such time as only one participant remains in the joint venture.

The business of the joint venture consists of investing and reinvesting funds contributed by the members in short-term obligations of banks, corporations, and the U.S. federal government with a maximum duration of twelve months. It functions in a manner analogous to a short-term bond mutual fund. Investment advisory services are provided by Sentry Investment Management, Inc. This office has directed all Wisconsin-domiciled Sentry companies to report their respective balances in SLAP as a one-line entry on Schedule DA – Part 1 (Short-Term Investments).

Lease Agreement

Effective May 15, 1982, the company entered into a lease agreement as landlord with Sentry Services, Inc., as tenant, for parts of the land and appurtenances in Stevens Point, Wisconsin, known and described as “SentryWorld,” but excluding the fishing and swimming lakes, the residence center, the ball diamond, and the picnic area. Rent is determined in accordance with the prevailing rent allocation formula used by SIAMCO to charge affiliated corporations for their common usage of property owned by SIAMCO. SIAMCO reserves the right to use the sports center for the benefit of its employees and one-half the space in the maintenance building. During 2003, Sentry Services, Inc., paid SIAMCO $176,076 under this lease agreement.

Sentry Complex Income Tax Allocation Agreement

On February 22, 1983, the SIAMCO board of directors adopted a written federal income tax allocation policy for all companies that are party to SIAMCO's consolidated return. This agreement has been amended and restated to add or delete companies as needed. The latest amended and restated agreement is effective December 31, 2003, and was amended on March 19, 2004, to add Parker Centennial. The key premise of this policy is that parties to the consolidated return that receive a tax reduction through utilization of some other member's tax loss are to compensate that other member for the use of the loss. Federal income taxes payable and tax benefits receivable are to be settled among the participants on the consolidated return on the same dates as would be required of each participant on a separate return basis.

Administrative Service Agreement

Effective April 23, 1991, the company entered into an administrative agreement to provide services to Sentry Life Insurance Company of New York. The agreement relates to the provision of essentially all services required for the operation of SLONY. Services may be terminated by either party at any time with six months' written notice. The agreement is governed in accordance with the laws of the state of New York.

Investment Advisory Agreement

On October 31, 1991, the company entered into an investment advisory agreement with Sentry Investment Management, Inc. (SIMI). This contract was amended and restated as of December 31, 2003. Under this contract, SIMI is employed to manage and direct the investment and reinvestment of the assets of SIAMCO, subject to the control of SIAMCO's board of directors. SIMI agrees to comply with the company's articles, bylaws, investment policies, and all applicable federal or state laws. Provided that it acts in good faith, the advisor is held harmless except in the event of a loss resulting from willful misfeasance, bad faith, gross negligence, or reckless disregard. SIMI charges the company a monthly fee computed as follows:

One twelfth (1/12) of an amount equal to the sum of (a) and (b)

(a) Common stocks, excluding those of affiliates:
.379 percent ($3.79 per $1,000) of market value;

(b) Bonds and preferred stocks, excluding those of affiliates:
.0379 percent ($.379 per $1,000) of market value.

In addition, the actual cost of any expense borne by the advisor on behalf of the company is reimbursed. The contract may be terminated by either of the parties with 60 days' written notice.

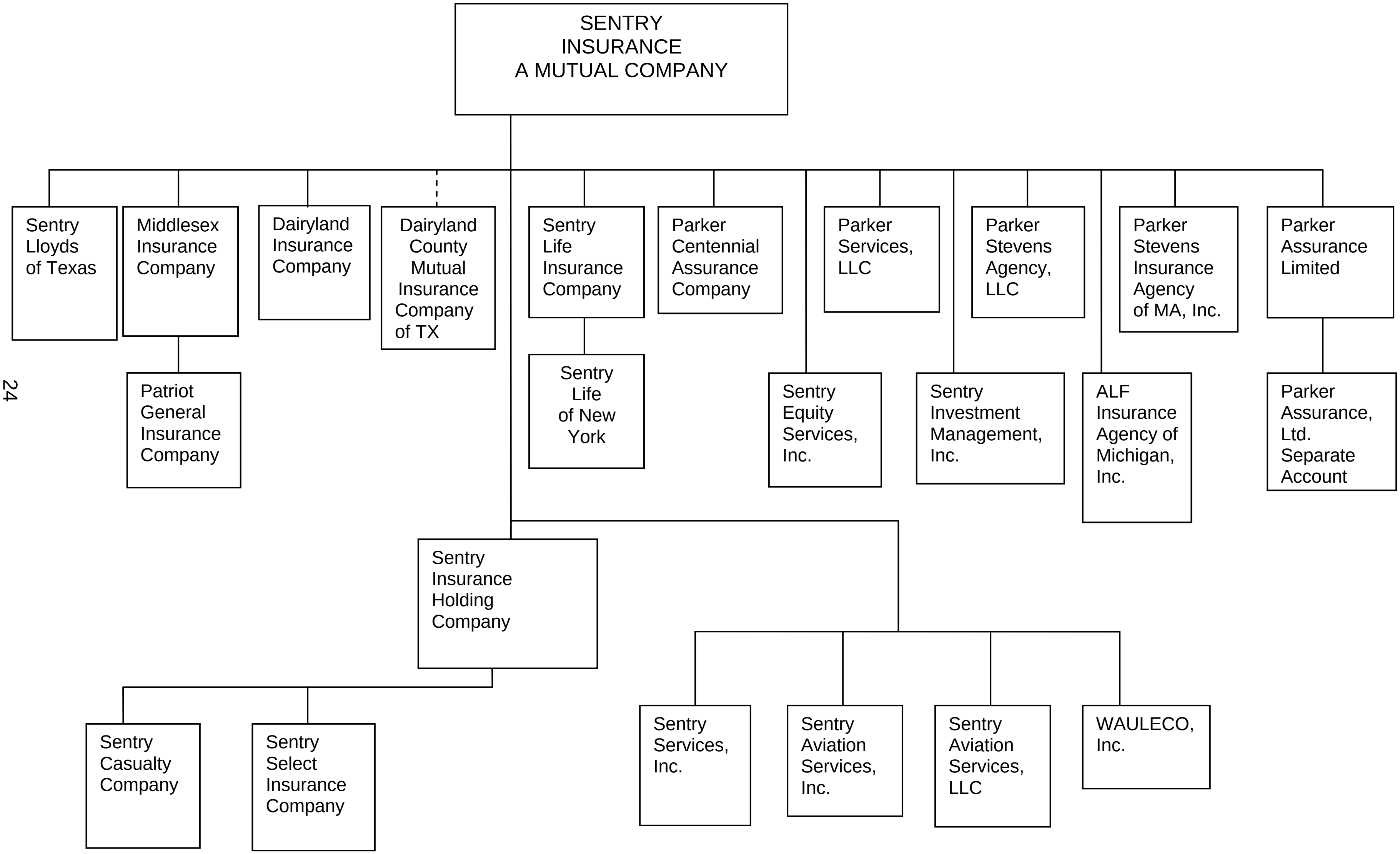
General Expense Allocation Agreement

In 1993, the insurance companies of the Sentry Insurance Group entered into a written general expense allocation agreement. The agreement formalized the parties' consent to an accounting allocation process that had been in place since 1982. This agreement has been amended and restated to add or delete companies as needed. The latest amended and restated agreement is effective December 31, 2003, and was amended on March 19, 2004, to add Parker Centennial. Under the agreed procedure, expenses are first grouped and assigned to cost pools, each of which is distinguished by one or more of four characteristics, including activity, location, center, and division. Expenses, once assigned to cost pools, are then allocated to specific insurance products. An expense is not assigned to a specific legal entity until after it is coded to a cost pool and then to a specific product. Allocation at each phase of this process, outlined here in simplified form, is based on specific identification, utilization estimates developed from such criteria as premium or claim volume, time studies, or other rational means of distribution.

Intercompany Settlement Policy

The Intercompany Settlement Policy has been amended and restated to add or delete companies as necessary. This contract was last amended and restated as of March 19, 2004, to add Parker Centennial. The cash management area settles intercompany balances, in SLAP where possible, based on policies and procedures listed in the agreement for daily, weekly, monthly, semi-annual and annual settlements. Other settlements under the agreement include reinsurance balances, which are to be settled according to the terms contained in the reinsurance agreements, and Sentry Aviation Services and Sentry Services, which are settled as funds are available.

Sentry Group
Organizational Chart
As of December 31, 2004



V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows.

The company had numerous active and inactive ceded reinsurance treaties and arrangements in force at the time of this examination. Over 10,000 nonaffiliated assuming contracts have been in runoff status since 1985 or prior. All voluntary contracts reviewed by examiners contained proper insolvency provisions. Involuntary arrangements, such as state auto insurance facilities, mine subsidence funds, and other nonvoluntary excess funds have provisions deemed appropriate by the governmental authorities that establish and administer them. Significant treaties and arrangements are summarized as follows.

Affiliated Property and Casualty Pooling Agreement

The company participates in a pooling arrangement with certain of its property and casualty affiliates. Dairyland Insurance Company, Middlesex Insurance Company, and Sentry Select Insurance Company cede 100% of their direct and assumed premiums, losses, loss adjustment expenses, and underwriting expenses, net of all cessions to nonaffiliated parties, to Sentry Insurance a Mutual Company. The net pooled business is then distributed according to the participations listed below. Specifically excluded from the pooling are income and expenses related to investment operations.

Dairyland, Middlesex, and Sentry Select are direct co-parties to the automatic nonaffiliated ceding reinsurance agreements of SIAMCO along with all of SIAMCO's other property and casualty affiliates, including Dairyland County Mutual Insurance Company of Texas, Patriot General Insurance Company, Sentry Lloyds of Texas, and Sentry Casualty Company. SIAMCO administers all aspects of the pooled business, including placement of reinsurance with nonaffiliates. However, reinsurance with nonaffiliated parties is transacted in the names of SIAMCO, Dairyland, Middlesex, and Sentry Select each for its own direct and assumed business, prior to pooling. After nonaffiliated cessions are made, the net business of each participant is pooled, and all of the net retained business of SIAMCO, Dairyland, Sentry Select, and Middlesex is derived from the pool. Additional terms of the pool are outlined below:

Effective date:	December 31, 2003 (Amended and Restated)	
Participation:	Sentry Insurance a Mutual Company	60%
	Dairyland Insurance Company	20%
	Middlesex Insurance Company	10%
	Sentry Select Insurance Company	10%
Termination:	By mutual agreement of the parties in writing, or by 90 days' advance notice by any one party to the other parties. In either event, such termination shall not be made effective at other than a subsequent calendar year-end.	

Affiliated Assuming Contracts

1. Type: 100% Quota Share Reinsurance

   Reinsured: Sentry Lloyds of Texas

   Scope: All business written and assumed by the reinsured

   Ceding company retention: None

   Coverage: 100% of losses, loss adjustment expenses, and any or all other expenses incurred by or assessed against the reinsured arising from business covered by this contract

   Premium: 100% of all premiums on business ceded pursuant to this treaty

   Commission: None

   Effective date: June 1, 1983 (Amended)

   Additional comment: In effect, the reinsured does not retain any net premiums written, net premiums earned, net losses incurred, loss adjustment expenses, or underwriting expenses under this contract and, therefore, cannot incur an underwriting profit or loss as long as this treaty is in force.

   Termination: Either party may effect a termination or portfolio cancellation of this treaty with 90 days' written notice by registered or certified mail.

Nonaffiliated Ceding Contracts

1. Type: Multiple Line Excess of Loss

   Reinsurer: See Table A at the end of this section

   Scope: Property and casualty business

	Retention:	$2,500,000 each risk, each occurrence
	Coverage:	The amount of ultimate net loss, including loss adjustment expenses, in excess of the company's retention of $2,500,000 per risk. Reinsurer risk not to exceed $12,500,000 as respects any one risk each loss, nor shall it exceed $25,000,000 all risks involved in any one occurrence.
	Premium:	Annual minimum deposit of $21,920,000; actual premium is 1.65% of subject net premiums earned for property business and 1.65% of subject net earned premium for casualty business.
	Commissions:	None
	Effective date:	January 1, 2004
	Termination:	Company may terminate upon 60-day notice to reinsurer. Reinsurer may terminate upon 90-day notice to company.
2.	Type:	Multiple Line Clash and Contingency Excess
	Reinsurers:	See Table B at the end of this section
	Scope:	Property and casualty losses
	Commission:	None
	Effective date:	January 1, 2004
	Termination:	Company may terminate upon a 10-day notice to reinsurer.
	a. First Layer Retention:	$15,000,000 each risk, each occurrence.
	Coverage:	Ultimate net loss in excess of the company's retention, up to a limit of $5,000,000 per loss occurrence, and $15,000,000 in aggregate for the contract year
	Premium:	Annual minimum deposit premium of $748,000; actual premium is .0563% of subject net earned premium
	b. Second Layer Retention:	$20,000,000 each risk, each occurrence.
	Coverage:	Ultimate net loss in excess of the company's retention, up to a limit of $10,000,000 per loss occurrence, and $20,000,000 in aggregate for the contract year
	Premium:	Annual minimum deposit premium of $692,000; or .0521% of subject direct earned premium
	c. Third Layer Retention:	$30,000,000 each risk, each occurrence.

	Coverage:	Ultimate net loss in excess of the company's retention, up to a limit of $20,000,000 per occurrence, and $40,000,000 in aggregate for the contract year
	Premium:	Annual minimum deposit premium of $920,000; or .0690% of subject direct earned premium
	d. Fourth Layer Retention:	$50,000,000 each risk, each occurrence.
	Coverage:	Ultimate net loss in excess of the company's retention, up to a limit of $20,000,000 per occurrence, and $40,000,000 in aggregate for the contract year
	Premium:	Annual minimum deposit premium of $742,000; or .0558% of subject direct earned premium
3.	Type:	Property Catastrophe Excess of Loss
	Reinsurers:	See Table C at the end of this section
	Scope:	Property
	Effective date:	January 1, 2004
	Termination:	Company or reinsurer may terminate agreement upon 90-day notice to each other
	a. First Layer Retention:	$10,000,000 each occurrence plus 5% of the next layer
	Coverage:	95% of the company's ultimate net loss, including loss adjustment expenses, in excess of the company's retention, up to a limit of $5,000,000 per loss occurrence, and $10,000,000 aggregate for the contract year
	Premium:	Annual deposit of $701,100; actual premium is .4100% of subject net earned premium
	b. Second Layer Retention:	$15,000,000 each occurrence plus 5% of the next layer
	Coverage:	95% of the company's ultimate net loss, including loss adjustment expenses, in excess of the company's retention, up to a limit of $15,000,000 per loss occurrence, and $30,000,000 aggregate for the contract year
	Premium:	Annual deposit of $1,453,500; actual premium is .8500% of subject net earned premium
	c. Third Layer Retention:	$30,000,000 each occurrence plus 5% of the next layer

	Coverage:	95% of the company’s ultimate net loss, including loss adjustment expenses, in excess of the company’s retention, up to a limit of $45,000,000 per loss occurrence, and $90,000,000 aggregate for the contract year
	Premium:	Annual deposit of $1,966,500; actual premium is 1.1500% of subject net earned premium
4.	Type:	Worker’s Compensation Excess of Loss
	Scope:	Worker’s Compensation and Employer’s Liability
	Effective date:	January 1, 2004
	Termination:	December 31, 2004
	Reinsurers:	American Re-insurance Company – 75% Aspen Insurance UK Limited – 25%
	Retention:	$2,500,000 each occurrence
	Coverage:	The ultimate net loss in excess of company’s retention, up to a limit of $2,500,000 per loss occurrence, with unlimited reinstatements and $2,500,000 aggregate for terrorism for the contract year
	Premium:	Annual minimum deposit of $3,960,000 or 1.268% of subject net earned premium
5.	Type:	Consumer Products Residential Property Per Risk Excess of Loss
	Reinsurer:	Aspen Insurance U.K. Limited
	Scope:	Residential property business
	Effective Date:	June 1, 2004
	Termination:	June 1, 2005
	Retention:	$1,250,000 each loss, each risk
	Coverage:	The ultimate net loss in excess of $1,250,000 each and every loss, each and every risk, but not to exceed $1,250,000 each and every loss, each and every risk, subject to an occurrence limit of liability of $2,500,000
	Premium:	Annual minimum deposit of $50,000 or .119% of subject gross net earned premium
6.	Type:	Adverse Loss Development Reinsurance Agreement
		In conjunction with the acquisition of the John Deere Insurance Group, Inc., SIAMCO entered into an Adverse Loss Development Reinsurance Agreement with European Reinsurance Company of Zurich. This reinsurance

agreement covers net losses incurred by the John Deere Insurance Group, Inc., on or after July 1, 1999, on business written prior to this date. Net losses in excess of carried loss reserves of $299,838,000 at June 30, 1999, are reimbursable subject to a maximum of $57,000,000 in exchange for a reinsurance premium of $16,400,000. This transaction is accounted for as retroactive reinsurance, which requires that expected recoveries under the contract be recorded as a contra-liability rather than as a reduction of gross loss reserves, and that the net gain recognized under the contract, representing the difference between reserves ceded under the contract since inception and the reinsurance premium paid, be segregated within policyholders' surplus.

Nonaffiliated Assuming Contracts

The company ceased all assumption activities with nonaffiliated companies prior to 1986. There are, however, reinsurance assumed treaties in run-off. Many of these contracts were originally entered into by affiliates and were assumed by the company during its efforts to consolidate its holding company system. The reinsurance assumed treaties in run-off have a broad range of underlying risks, including risks located overseas. Types of contracts include catastrophe, excess of loss, pro rata, and facultative. Domestic assumed reinsurance tends to include long-tail exposures, such as environmental risks and medical malpractice. Much of the international assumed reinsurance tends to include more medium-tail risks, such as general liability, auto liability, and worker's compensation. One difficulty encountered with respect to international exposures is that the laws of some of the countries in which risks are located do not allow for complete release of the responsible parties, so claims can remain open for periods much longer than typical in the United States or can be reopened many years after the settlement is believed to have been final.

Table A
Multiple Line Excess of Loss
Participation Schedule

Reinsurer	Participation
American Re-insurance Company	40.0%
AXIS Reinsurance Company	15.0
Converium Reinsurance (North America) Inc.	5.0
Motors Insurance Company	14.0
Hannover Ruckversicherungs-Aktiengesellschaft	14.0
Aspen Insurance UK Limited	12.0
Total	100.0%

Table B
Multiple Line Clash
Participation Schedule

	Participation Layers			
Reinsurer	**1st**	**2nd**	**3rd**	**4th**
American Re-insurance Company	8.0%	0.0%	0.0%	0.0%
AXIS Reinsurance Company	0.0	15.0	15.0	0.0
Endurance Reinsurance Corporation of America	15.0	15.0	18.0	21.0
Folksamerica Reinsurance Company	25.0	20.0	10.0	10.0
Hannover Ruckversicherungs-Aktiengesellschaft	15.0	15.0	15.0	15.0
Liberty Mutual Insurance Company	7.0	4.0	3.5	2.5
New Jersey Re-Insurance Company	0.0	6.0	6.0	6.0
Platinum Underwriters Reinsurance, Inc.	0.0	0.0	17.5	20.5
Swiss Reinsurance America Corporation	0.0	15.0	0.0	0.0
Transatlantic Reinsurance Company	0.0	0.0	5.0	5.0
XL Reinsurance America Inc.	30.0	0.0	0.0	0.0
Aspen Insurance UK Limited	0.0	10.0	10.0	20.0
Total All Participants	100.0%	100.0%	100.0%	100.0%

Table C
Property Catastrophe Excess of Loss
Participation Schedule

Reinsurer	**Participation** 1st Layer	2nd Layer	3rd Layer
Converium Reinsurance (North America) Inc.	3.00%	4.00%	5.00%
Everest Reinsurance Company	10.00	9.00	9.00
Folksamerica Reinsurance Company	5.00	5.00	5.00
Liberty Mutual Insurance Company	4.00	3.50	2.00
New Jersey Re-Insurance Company	5.00	3.00	1.00
Shelter Mutual Insurance Company	3.50	3.50	3.00
State Automobile Mutual Insurance Company	0.00	1.00	1.00
Transatlantic Reinsurance Company	10.00	8.00	12.00
Endurance Specialty Insurance Ltd.	9.50	7.00	7.00
Hanover Re (Bermuda) Ltd.	5.00	5.00	5.00
Allied World Assurance Company Ltd.	15.00	15.00	15.00
IPCRe Limited	15.00	15.00	15.00
Montpelier Reinsurance Ltd.	6.00	6.00	6.00
PXRE Reinsurance Ltd.	3.00	3.00	3.00
Sirius International Insurance Corporation	1.00	1.00	1.00
Aspen Insurance UK Limited	0.00	0.00	2.00
Odyssey America Reinsurance Corporation	0.00	3.00	0.00
Lloyd’s Syndicate KLN #0510	0.00	1.00	1.00
Lloyd’s Syndicate AFB #0623	0.00	0.46	0.46
Lloyd’s Syndicate AFB #2623	0.00	0.54	0.54
Lloyd’s Syndicate BRT #2987	0.00	1.00	1.00
Total All Participants	95.00%	95.00%	95.00%

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2003, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Sentry Insurance a Mutual Company
Assets
As of December 31, 2003

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$2,101,672,237	$	$2,101,672,237
Stocks:			
Preferred stocks	4,298,160		4,298,160
Common stocks	1,340,429,686		1,340,429,686
Real estate:			
Occupied by the company	49,306,695		49,306,695
Properties held for the production of income	3,724,960		3,724,960
Cash	(62,190,675)		(62,190,675)
Short-term investments	133,144,516		133,144,516
Contract loans			
Other invested assets	46,993,771		46,993,771
Receivable for securities	1,221,923		1,221,923
Investment income due and accrued	33,346,530		33,346,530
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	51,495,664	2,901,979	48,593,685
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	287,632,485	609,296	287,023,189
Accrued retrospective premiums	65,454,235	3,519,011	61,935,224
Reinsurance:			
Amounts recoverable from reinsurers	18,938,407		18,938,407
Funds held by or deposited with reinsured companies	1,918,942		1,918,942
Net deferred tax asset	201,553,447	77,029,593	124,523,854
Guaranty funds receivable or on deposit	1,286,936		1,286,936
Electronic data processing equipment and software	39,487,273	23,906,086	15,581,187
Furniture and equipment, including health care delivery assets	5,764,897	5,764,897	
Receivable from parent, subsidiaries, and affiliates	11,774,371		11,774,371
Other assets nonadmitted:			
Leasehold improvements	372,458	372,458	
Loans on personal security, endorsed or not	1,939,791	1,939,791	
Write-ins for nonadmitted assets:			
Accounts receivable -securities	130,459	130,459	
Prepaid pension asset	81,541,744	81,541,744	
Write-ins for other than invested assets:			
Miscellaneous accounts receivable	16,805,795	3,859,617	12,946,178
Amounts billed and receivable under high deductible policies	22,338,708	78,075	22,260,633
Reinsurance accounts receivable - affiliates	23,528,145		23,528,145
Assumed A&H due and unpaid - group	32,237		32,237
Equities and deposits in pools and associations	443,872		443,872
Total Assets	$4,484,387,669	$201,653,006	$4,282,734,663

Sentry Insurance a Mutual Company
Liabilities, Surplus, and Other Funds
As of December 31, 2003

Losses		$1,126,176,630
Reinsurance payable on paid loss and loss adjustment expenses		6,823,077
Loss adjustment expenses		223,717,026
Commissions payable, contingent commissions, and other similar charges		26,560,659
Other expenses (excluding taxes, licenses, and fees)		80,325,996
Taxes, licenses, and fees (excluding federal and foreign income taxes)		7,194,605
Current federal and foreign income taxes		3,491,283
Borrowed money and interest thereon		1,825,000
Unearned premiums		472,007,910
Advance premium		9,606,642
Dividends declared and unpaid:		
Policyholders		3,485,462
Ceded reinsurance premiums payable (net of ceding commissions)		13,289,468
Funds held by company under reinsurance treaties		7,829,894
Amounts withheld or retained by company for account of others		101,045,560
Remittances and items not allocated		3,618,903
Provision for reinsurance		3,032,562
Net adjustments in assets and liabilities due to foreign exchange rates		3,297,341
Drafts outstanding		
Payable to parent, subsidiaries, and affiliates		14,876,640
Payable for securities		2,185,579
Write-ins for liabilities:		
Provision for contingent losses of subsidiaries		17,950,315
Reinsurance accounts payable - affiliates		3,866,796
Accounts payable - other		10,431,828
Pension minimum liability – nonqualified		5,186,185
Premium deficiency liability - assumed		1,200,000
Escheat funds		858,109
Recoverable on retro reinsurance contract		(46,643,615)
Private passenger auto escrow		105,397
New Jersey buyout expense		2,325,000
Total Liabilities		2,105,670,252
Write-ins for special surplus funds:		
Segregated surplus – retroactive reinsurance	$ 13,743,229	
Write-ins for other than special surplus funds:		
Guaranty funds	1,600,000	
Unassigned funds (surplus)	2,161,721,182	
Surplus as Regards Policyholders		2,177,064,411
Total Liabilities and Surplus		$4,282,734,663

Sentry Insurance a Mutual Company
Summary of Operations
For the Year 2003

Underwriting Income		
Premiums earned		$964,216,752
Deductions:		
Losses incurred	$642,668,346	
Loss expenses incurred	99,724,908	
Other underwriting expenses incurred	244,295,080	
Write-ins for underwriting deductions:		
NJ buyout expenses	2,850,000	
Private passenger auto escrow change	105,397	
Total underwriting deductions		989,643,731
Net underwriting gain or (loss)		(25,426,979)
Investment Income		
Net investment income earned	136,725,974	
Net realized capital gains or (losses)	13,437,229	
Net investment gain or (loss)		150,163,203
Other Income		
Net gain or (loss) from agents' or premium balances charged off	(5,058,066)	
Finance and service charges not included in premiums	1,811,958	
Write-ins for miscellaneous income:		
Miscellaneous expenses	(940,339)	
Total other income		(4,186,447)
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		120,549,777
Dividends to policyholders		6,380,410
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		114,169,367
Federal and foreign income taxes incurred		(2,710,000)
Net Income (Loss)		$116,879,367

Sentry Insurance a Mutual Company
Cash Flow
For the Year 2003

Premiums collected net of reinsurance			$ 921,259,712
Net investment income			137,598,114
Miscellaneous income			(3,984,204)
Total			1,054,873,622
Benefit- and loss-related payments		$544,259,823	
Commissions, expenses paid, and aggregate write-ins for deductions		324,402,660	
Dividends paid to policyholders		5,208,074	
Federal and foreign income taxes paid (recovered)		(6,328,795)	
Total deductions			867,541,762
Net cash from operations			187,331,860
Proceeds from investments sold, matured, or repaid:			
Bonds	$565,977,878		
Stocks	195,424,353		
Real estate	388,939		
Other invested assets	6,266,879		
Net gains (losses) on cash and short-term investments	(70)		
Miscellaneous proceeds	1,084,906		
Total investment proceeds		769,142,885	
Cost of investments acquired (long-term only):			
Bonds	637,498,444		
Stocks	266,975,126		
Real estate	4,109,094		
Other invested assets	31,088,282		
Miscellaneous applications	733,164		
Total investments acquired		940,404,110	
Net cash from investments			(171,261,225)
Cash from financing and miscellaneous sources:			
Borrowed funds received		(70,000)	
Other cash provided (applied)		(62,651,259)	
Net cash from financing and miscellaneous sources			(62,721,259)
Reconciliation			
Net change in cash and short-term investments			(46,650,624)
Cash and short-term investments, December 31, 2002			117,604,465
Cash and short-term investments, December 31, 2003			$ 70,953,841

Sentry Insurance a Mutual Company
Compulsory and Security Surplus Calculation
December 31, 2003

Assets			$4,282,734,663
Less security surplus of insurance subsidiaries			803,449,767
Add security surplus excess of insurance subsidiaries			582,198,082
Less liabilities			2,105,670,251
Adjusted surplus			1,955,812,727
Annual premium:			
Individual accident and health	$ 29,319		
Factor	15%		
Total		$ 4,397	
Group accident and health	9,146,239		
Factor	10%		
Total		914,623	
Lines other than accident and health	1,000,224,084		
Factor	20%		
Total		200,044,816	
Compulsory surplus (subject to a minimum of $2 million)			200,963,836
Compulsory surplus excess (or deficit)			$1,754,848,891
Adjusted surplus (from above)			$1,955,812,727
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)			221,060,220
Security surplus excess (or deficit)			$1,734,752,507

Sentry Insurance a Mutual Company
Reconciliation and Analysis of Surplus (in thousands)
For the Four-Year Period Ending December 31, 2003

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

(Thousands)	**2003**	**2002**	**2001**	**2000**
Surplus, beginning of year	$1,965,959	$1,955,403	$1,877,381	$1,767,084
Net income	116,879	29,496	22,781	179,200
Net unrealized capital gains or (losses)	102,338	(23,072)	(715)	(68,939)
Change in net unrealized foreign exchange capital gains (losses)	1,671	7	(802)	
Change in net deferred income tax	21,000	(6,907)	91,437	
Change in non-admitted assets	(69,858)	12,184	(101,223)	671
Change in provision for reinsurance	355	(1,152)	175	(34)
Change in foreign exchange adjustment				(601)
Cumulative effect of changes in accounting principles			66,369	
Write-ins for gains and (losses) in surplus:				
Change in minimum pension liability	38,720			
Surplus, end of year	$2,177,064	$1,965,959	$1,955,403	$1,877,381

Sentry Insurance a Mutual Company
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 2003

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	**2003**	**2002**	**2001**	**2000**
#1	Gross Premium to Surplus	80%	83%	81%	68%
#2	Net Premium to Surplus	47	47	47	40
#3	Change in Net Writings	9	1	23	9
#4	Surplus Aid to Surplus	0	0	0	0
#5	Two-Year Overall Operating Ratio	90	90	89	89
#6	Investment Yield	4.0*	4.7	4.9	4.2*
#7	Change in Surplus	11	1	4	6
#8	Liabilities to Liquid Assets	67	67	65	65
#9	Agents' Balances to Surplus	2	2	1	1
#10	One-Year Reserve Development to Surplus	-2	-4	-6	-8
#11	Two-Year Reserve Development to Surplus	-4	-7	-11	-14
#12	Estimated Current Reserve Deficiency to Surplus	0	0	9	3

Ratio No. 6 measures the investment yield. The exceptional results in 2000 and 2003 are only slightly below the minimum expected result of 4.5%. Under the current low market interest rates this is not unusual, especially for companies that invest in tax-exempt securities.

Growth of Sentry Insurance a Mutual Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2003	$4,282,734,663	$2,105,670,251	$2,177,064,411	$116,879,367
2002	3,872,591,641	1,906,632,677	1,965,958,964	29,495,657
2001	3,757,291,654	1,801,887,805	1,955,403,849	22,781,272
2000	3,694,873,500	1,817,491,340	1,877,382,161	179,200,372
1999	3,590,885,518	1,823,801,277	1,767,084,241	39,190,713

(Thousands)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2003	$1,745,969	$1,015,780	$964,217	77.0%	24.8%	101.8%
2002	1,624,979	931,739	846,182	80.4	29.5	109.9
2001	1,575,431	921,133	815,622	81.9	24.6	106.5
2000	1,279,878	750,942	734,127	80.8	29.0	109.8
1999	1,257,861	687,931	609,487	75.7	32.1	107.8

The company grew steadily during the period under examination reporting a profit in each year with 2000 and 2003 being particularly profitable years. This is attributable to capital gains, due to good investment performance in 2000 and improved underwriting results and lower expenses in 2003. The company’s expense ratios were 24.8% and 24.6% in 2003 and 2001, respectively, the lowest ratios during the period under examination.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2003, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were three specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Cash—It is recommended that the company report the annual statement cash balance net of any outstanding checks, in accordance with the NAIC's Accounting Practices and Procedures Manual for Property/Casualty Insurance Companies.

   Action—Compliance.

2. Financial Reporting—It is recommended that the company complete the Notes to the Financial Statements in accordance with the NAIC Annual Statement Instructions.

   Action—Compliance.

3. Financial Reporting—It is recommended that the company submit an annual request to the Office of the Commissioner of Insurance to seek permission for the admittance of the jet aircraft asset.

   Action—Not applicable, the company has established a policy to nonadmit the value of the aircraft in accordance with SSAP No. 4.

Summary of Current Examination Results

Affiliated Companies

It was noted that the company did not include any amounts in Schedule Y, Part 2, Column 8. According to NAIC Annual Statement Instructions – Property and Casualty, Schedule Y, Part 2, Column 8, should include all revenues and expenditures under management agreements and service contracts, all income tax amounts resulting from intercompany tax-sharing arrangements, all amounts for contracts for services provided by the insurer or purchased by the insurer from other affiliates, and all compensation under agreements with affiliated brokers and reinsurance intermediaries; the introductory portion of these instructions prescribe materiality limits on what must be reported. The company's interpretation that these limits apply and therefore the company left this schedule blank. Pursuant to s. Ins 40.04, Wis. Adm. Code, the Office of the Commissioner of Insurance has determined that all affiliated, management and service agreements are material, and therefore the amounts paid to or received from affiliates should be included in Column 8 of Schedule Y, Part 2, pursuant to s. 601.42 (3), Wis. Stat. It is recommended that the company properly complete Column 8 of Schedule Y, Part 2, in all future annual statements, by properly including all revenues and expenditures under management and service agreements pursuant to s. 601.42 (3), Wis. Stat., and s. Ins 40.04, Wis. Adm. Code.

Accrued Return Retrospective Premiums

During review of the accrued retrospective premium balance it was noted that the company is netting accrued retrospective premium receivables with accrued return retrospective premiums and reporting the netted balance on annual statement line 12.3. Statement of Statutory Accounting Principles (SSAP) No. 66, paragraph 6 a ii, states when an asset or liability is calculated for each risk, the total of all receivables shall be recorded as an asset and the total of all return premiums shall be recorded as a liability. SSAP No. 66, paragraph 8 a ii, further states that accrued return retrospective premiums shall be recorded as a write-in liability. It is recommended that the accrued return retrospective premiums be recorded in accordance with SSAP No. 66, paragraphs 6 a ii and 8 a ii.

Subsequent Events

SIAMCO acquired Acceleration Life Insurance Company from Lyndon Life Insurance Company, a subsidiary of Protective Life Corporation, by means of a stock purchase agreement dated December 20, 2003, which closed on March 19, 2004. The company was redomiciled from Ohio to Wisconsin and the name was changed to Parker Centennial Assurance Company effective August 11, 2004.

SIAMCO has provided a guarantee of up to $100 million toward the prompt payment of Parker Centennial's liabilities under annuity policies and contracts and/or to make additional capital contributions to Parker Centennial to meet A.M. Best's capital standards or to provide liquidity. A.M. Best requested these guarantees in order to assign its rating of SIAMCO to Parker Centennial. The Office of the Commissioner of Insurance did not disapprove the proposed guarantee in a letter dated July 13, 2004.

ALF Insurance Agency of Michigan, Inc., is an independent insurance agency domiciled in Michigan that was purchased by SIAMCO on December 31, 2004. Sentry will continue this company as an independent agency with the movement of select risks from other carriers to Sentry.

VIII. CONCLUSION

SIAMCO has a 60% participation in the affiliated pooling agreement with Dairyland (20%), Middlesex (10%) and Sentry Select (10%), whereby all property and casualty business written by the Sentry Insurance Group is combined and reapportioned. SIAMCO acquired Acceleration Life Insurance Company on March 19, 2004. The company was redomiciled to Wisconsin and the name was changed to Parker Centennial Assurance Company effective August 11, 2004.

The examination verified the financial condition of the company as reported in its annual statement. The company complied with all three prior examination recommendations. No adjustments or reclassifications are being made as a result of this examination. Recommendations concerning properly completing Schedule Y, Part 2, of the annual statement and properly reporting accrued return retrospective premiums are being made as a result of this examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 43 - Affiliated Companies—It is recommended that the company properly complete Column 8 of Schedule Y, Part 2, in all future annual statements, by properly including all revenues and expenditures under management and service agreements pursuant to s. 601.42 (3), Wis. Stat., and s. Ins 40.04, Wis. Adm. Code.

2. Page 43 - Accrued Return Retrospective Premiums—It is recommended that the accrued return retrospective premiums be recorded in accordance with SSAP No. 66, paragraphs 6 a ii and 8 a ii.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Amy Wolff	Insurance Financial Examiner
Angelita Romaker	Insurance Financial Examiner
Eleanor Oppriecht	Insurance Financial Examiner
Richard Anderson	Insurance Financial Examiner
Stephen Elmer	Insurance Financial Examiner
Randy Milquet	EDP Specialist
Tim VandeHey	EDP Specialist

Respectfully submitted,

Kerri L. Miller
Examiner-in-Charge